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EX PARTE

January 20, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

JAN 20 1995

RE: In the Matter of Price Cap Performance Review for Local Exchange Carriers
CC Docket No. 94-1

Dear Mr. Caton:

DOCKET FILE COPY ORIGINAL

Today representatives of Sprint Corporation met with Messrs. Don Gips and John Muleta of the Office of Plans and Policy to discuss issues in the above referenced matter. Information on the attached, relative to Sprint's comments and reply comments submitted on May 9 and June 29, respectively, was discussed.

Representing Sprint Corporation were Jay Keithley, Rick Kapka, Jim Sichter and John Ivanuska. Sprint requests that this information be made a part of the record in this matter. If you should have any questions, please feel free to call.

Sincerely,

Jay C. Keithley
Vice President
Law and External Affairs

Attachment

cc: Mr. Don Gips
Mr. John Muleta

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SPRINT PRICE CAP REFORM PLAN

SPRINT PRICE CAP REFORM OBJECTIVES

OBJECTIVE

- **INCREASED CONSUMER BENEFITS**
- **INCREASED INCENTIVES FOR PRODUCTIVITY/INFRA-STRUCTURE INVESTMENT**
- **MEASURED STEPS TO ENHANCE LEC's COMPETITIVENESS**

Achieved Through:

- **Access Rate Reductions Greater Than Existing Price Cap Plan**
- **Higher Productivity Offset**
- **Elimination Of Sharing**
- **Streamlined Regulation/Increased Pricing Flexibility for LECs Choosing the Sprint Plan**

SPRINT PRICE CAP REFORM PLAN SUMMARY

- **5 Year Plan**
- **Optional**

Key Elements of the Sprint Price Cap Plan

- **4.5% Productivity Offset**
- **2% Upfront Rate Reduction**
- **Elimination of Sharing/Lower Formula Adjustment Mark (LFAM)**
- **LECs choosing the Sprint Plan Option would qualify for more streamlined regulation and greater pricing flexibility, e.g.:**
 - **Immediate implementation of Zone Density pricing**
 - **Targeting of upfront rate reduction to high density transport rates**
 - **Targeting of portion of productivity factor to RIC phasedown**
 - **Flexibility to move depreciation rates to economic levels/write down reserve deficiencies**

The Elimination of Sharing/LFAM furthers the Commission's Objectives For Incentive Regulation:

- Provides stronger incentives for efficiency
- Provides stronger incentives for innovation
- Greatly diminishes incentives for cross-subsidization
- Significantly reduces the administrative costs of regulation
- Makes consumers better off --- If the productivity factor is set at an appropriate level

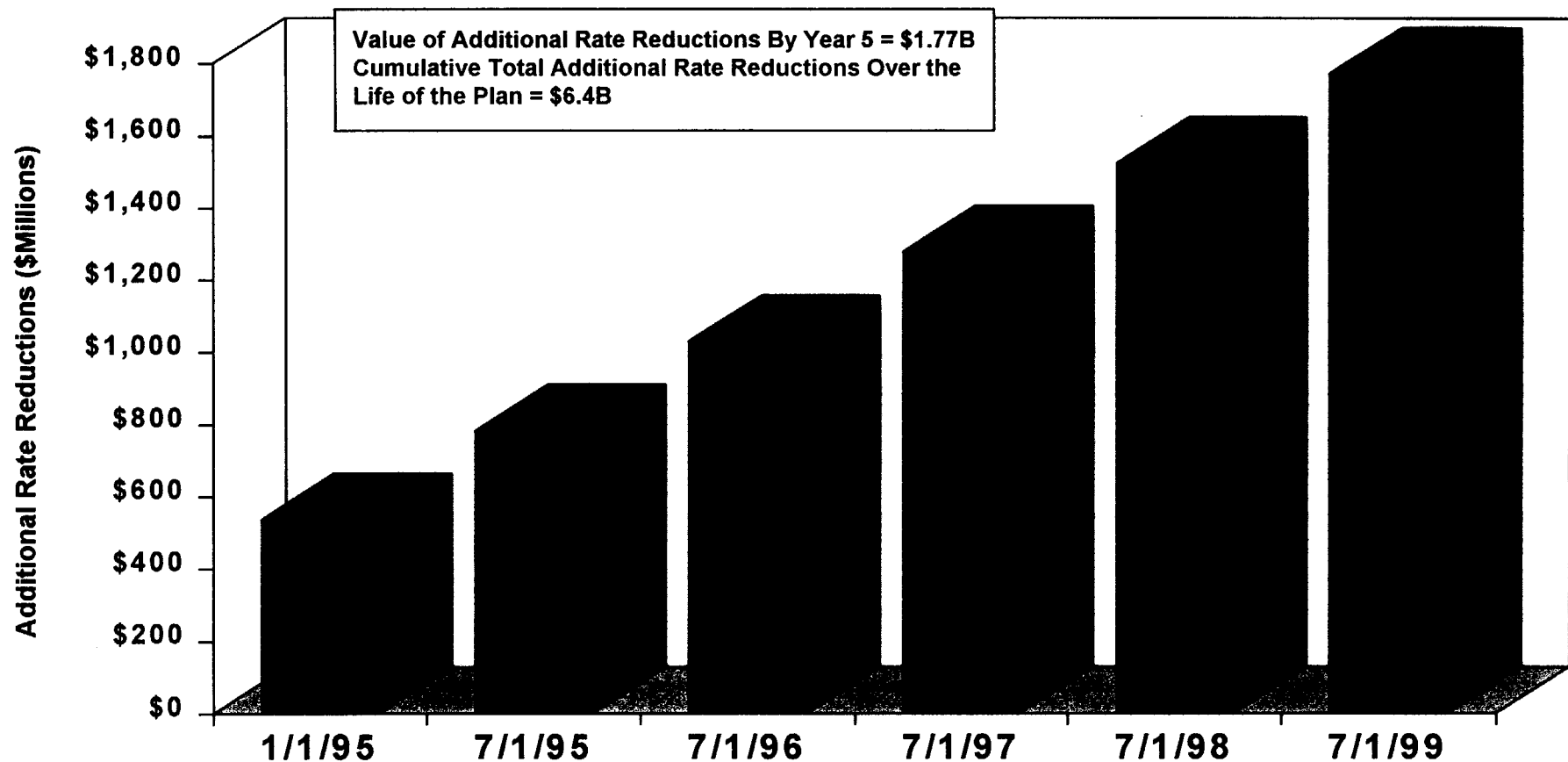
In the emerging environment, retention of Sharing/LFAM will:

- Blunt LEC incentives for efficiency
- Act to protect LECs (through LFAM) from competitive revenue losses
- Distort pricing and investment decisions
 - Pricing decisions relative to competitive services impact (through LFAM or Sharing) prices for less competitive services
 - Sharing/LFAM skew investment economics
 - LFAM limits downside risks
 - Sharing limits upside potential
- Enmesh the Commission in a wide variety of exceedingly complex, but competitively significant, determinations
 - Allocation of costs between VDT and other access services (to ensure access rates not impacted by VDT)
 - Recovery of underdepreciated past investments/depreciation rates
 - Recovery of “subsidies” embedded in existing LEC Rates (e.g., transport Residual Interconnection Charge)
 - Regulated/nonregulated service cost allocations

The Elimination of Sharing/LFAM is an integral part of Sprint's Price Cap Reform Proposal, reflecting the need to:

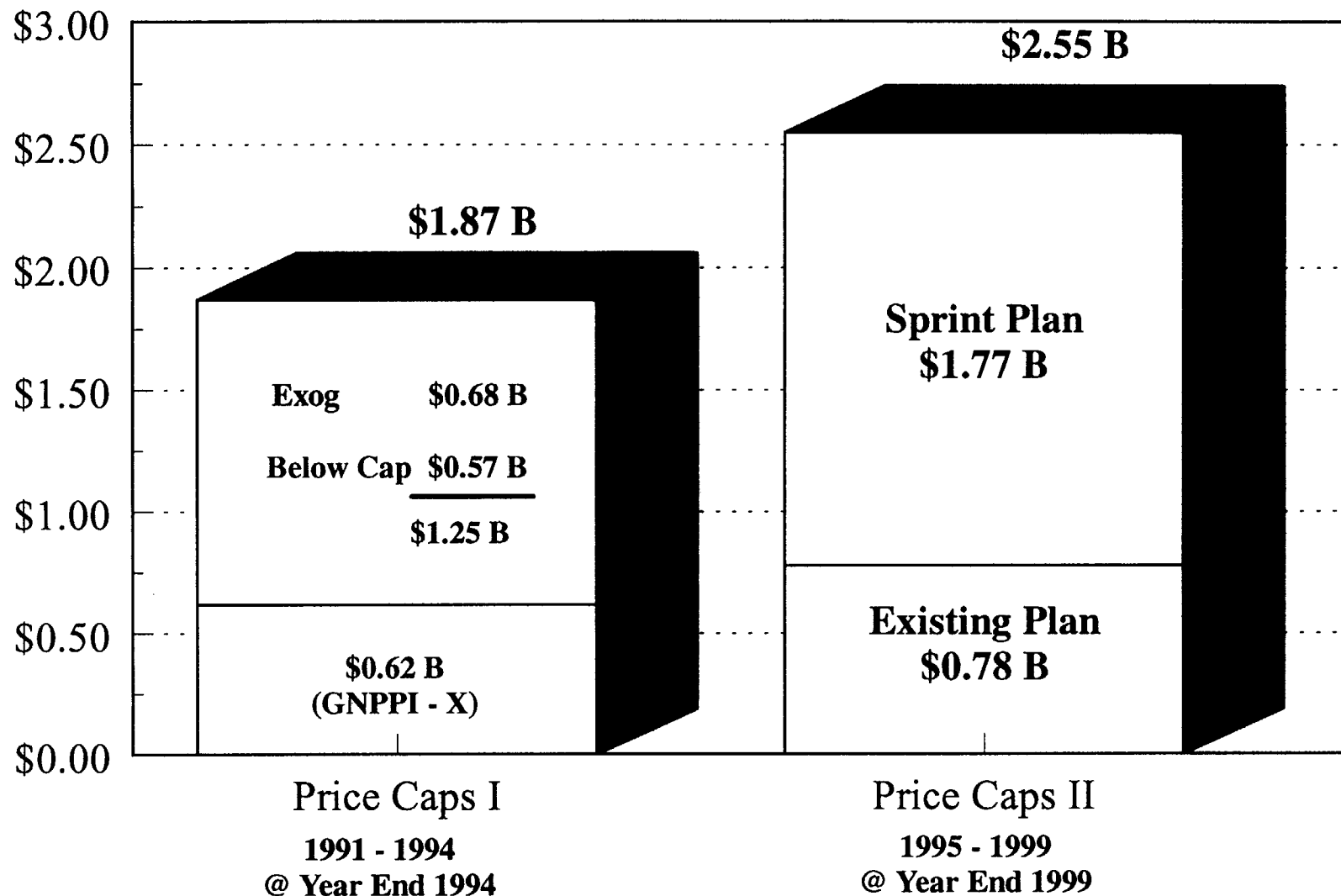
- Ensure that the focal point of competition is the market place -- not the regulatory process
- Establish a framework in which LEC stockholders, not ratepayers, bear the risks as well as the rewards of competition
- Provide LECs more latitude in making key pricing, investment, and other financial or marketing decisions, with a commensurate increase in management's accountability for their financial performance (and a commensurate decrease in regulatory protection or guarantees of cost recovery)

Potential Rate Reductions Under The Sprint Price Cap Plan Compared to the Existing Price Cap Plan*



* Based on Total Industry 1993 Price Cap Revenues of \$20.6B
- Assumes All Price Cap LECs elect Sprint Plan Option

Potential Access Rate Reductions Under The Sprint Price Cap Plan



* Assumes all Price Cap LECs elect Sprint Plan option.